

Friday, 6th October 2017

Morning Round Up

Mixed messages for sterling

Ian McCafferty, a member of the Bank of England's Monetary Policy Committee gave a speech in London yesterday where he said the BOE had reduced the chance of an "unwelcome surprise" for markets by signalling the possibility that it could soon raise interest rates for the first time in a decade. Markets are now pricing in an 85% chance of an increase at the BOE meeting next month. This should be sterling positive. On the other side of the equation is Theresa May's continuing political woes. Following a disastrous speech at the Tory conference the clamour for her to resign is growing stronger. If May does resign the ensuing uncertainty and increased possibility of a second election should be negative for sterling. We maintain our year end forecast of EURGBP at £0.9 with a risk of a move to £0.94.

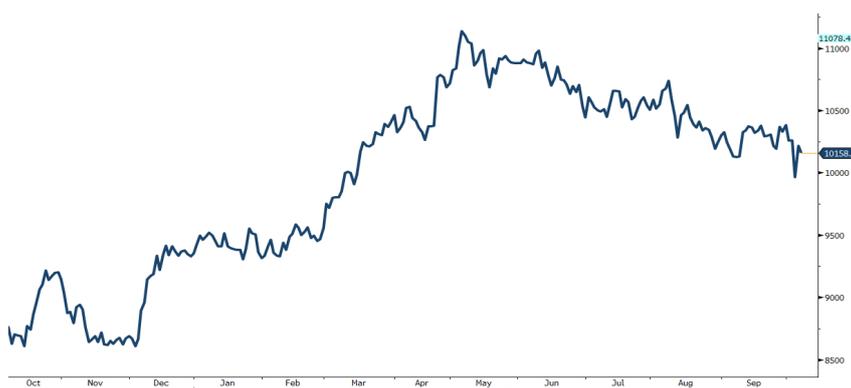
Europe continuing to set the pace

Despite briefly stuttering for the month of August, European equity outperformance relative to the US has regained momentum and looks set to continue based on cheaper valuations and better economic fundamentals. German factory orders rebounded in August, growing by 3.6% and up 7.8% YoY. This is particularly noteworthy as August was a month of euro strength, which traditionally has impacted German exporters. This shows that the European economy can withstand a euro at higher levels. Separately, European equity funds had \$1.6bn of inflows in the week ending Oct. 4th while US funds had \$0.7bn outflows. Europe has seen equity inflows in 25 of the past 28 weeks while the US has seen outflows in 14 of the last 16 weeks.

Catalan separatist divisions begin to show

In an unexpected move, Catalan separatists have pushed back the deadline for independence declaration. The movement's leaders are divided over the next step, with CUP hardliners demanding immediate declaration while some business friendly parties are worried about the impact on the Catalan economy. These concerns are shared by Regional President Carles Puigdemont's mainstream separatist group. The movement is a very broad panacea of differing political movements including left-wing anarchists and senior business leaders. The moderates appear to be seeking a way to trigger independence without having public unrest with one solution under discussion being so-called deferred independence - a set period before independence declaration which the separatists hope would force the Spanish government to negotiate.

IBEX Price Chart



Source: Bloomberg, CF Research October 2017

Key Upcoming Events

26/10/2017—ECB Meeting

Market View

Markets were solid overnight with the S&P 500 hitting new all time highs. European equities also performed strongly yesterday as economic data showed that the European recovery continues apace. USD continues its recent rally with numerous Fed officials sticking to the hawkish message yesterday and US factory orders came in above expectations. Market focus today will be on the US non-farm payrolls report with estimates putting job gained at 80k.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	22775	113.75	0.50%	15.24%
S&P	2552	14.33	0.56%	13.99%
Nasdaq	6585	50.73	0.78%	22.33%

Nikkei	20,691	62.15	0.30%	8.25%
Hang Seng	28,421	41.86	0.15%	29.18%

Brent Oil	56.86	-0.14	-0.25%	0.07%
WTI Oil	50.71	-0.08	-0.16%	-5.60%
Gold	1269	0.55	0.04%	10.57%

€/\$	1.1692	-0.0019	-0.16%	11.17%
€/£	0.8944	0.0017	0.19%	4.79%
£/\$	1.3071	-0.0048	-0.37%	5.92%

	Yield	Change
German 10 Year	0.47%	0.012%
UK 10 Year	1.39%	0.003%
US 10 Year	2.36%	0.013%

Irish 10 Year	0.72%	0.011%
Spain 10 Year	1.75%	0.050%
Italy 10 Year	2.17%	0.018%

Source: Bloomberg, CF Research October 2017

CRH - Ash Grove receive competing bid

Closing Price - €31.49

News

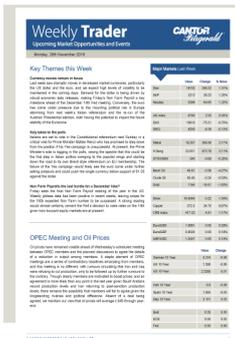
News broke overnight that Ash Grove Cement had received a competing proposal from a third party that surpasses the recent \$3.5bn offer from CRH. The offer, from a third party which it did not identify, values Ash Grove at \$3.7 - \$3.8bn. The company's board said the offer could result in a superior proposal and that it would engage in talks with the third party. It also stated that the "window shop period", as defined in the merger agreement, has been extended until 5pm New York time on October 20th. Lastly, it announced that it had set November 1st as a the date for a special meeting of its stockholders to consider and vote on the CRH proposal.

Comment

This deal is [significant](#) and we estimated it could be 6-8% earnings accretive for CRH in 2018. As such, a competing bid for Ash Grove with a superior valuation is unlikely to be positive for CRH. Ash Grove did not give any other details about the deal or who the competing bidder is. Judging the likely success of that bid is difficult without those details but in all likelihood it a major global player behind it. In the longer term CRH should continue to outperform based on volume growth both in the US and Europe. However, until the market has some clarity on this deal CRH is likely to remain under pressure in the short term. We will continue to monitor the situation for any further details.

Will Heffernan | Investment Analyst

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Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

CRH: CRH is a global building materials group

Historical Recommendation:

CRH: We have added CRH to our core portfolio on the 01/01/16, with a recommendation of Outperform

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